

Message Text

CONFIDENTIAL

PAGE 01 LONDON 09080 01 OF 02 131730Z

53

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 PA-01

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1955

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 09080

E.O. 11652: GDS

TAGS: ENRG UK

SUBJECT: NORTH SEA OIL: STATUS OF PARTICIPATION TALKS

REF: LONDON 6452,4007, 2087, 1201, 832; STATE 132932

1. INTRODUCTORY NOTE: DURING PAST FEW MONTHS PARTICIPATION TALKS HAVE BEEN CARRIED FORWARD IN LANGUID FASHION AS HMG AND OIL INDUSTRY CONCENTRATED INITIALLY ON PETROLEUM REVENUE TAX (PRT) AND MORE RECENTLY ON PETROLEUM AND SUBMARINE PIPELINE LEGISLATION. IT IS DOUBTFUL THAT PARTICIPATION WILL BE DEALT WITH IN EARNEST AT MINISTERIAL LEVEL UNTIL PETROLEUM BILL IS ACCOMPLISHED FACT. PROVISIONS OF PETROLEUM BILL ESTABLISHING BRITISH NATIONAL OIL COMPANY WHICH ARE ULTIMATELY APPROVED BY PARLIAMENT COULD SIGNIFICANTLY AFFECT JUDGMENT OF INDIVIDUAL COMPANY AS TO WHETHER OR NOT IT IS WILLING TO ACCEPT VOLUNTARY PARTICIPATION. APPOINTMENT OF ANTHONY BENN AS ENERGY SECRETARY COULD BUT IS NOT LIKELY TO CHANGE PARTICIPATION TIMETABLE INASMUCH AS PRIME MINISTER WILSON HAS CONFIRMED ASSIGNMENT TO HAROLD LEVER AND EDMUND DELL OF CONTINUED RESPONSIBILITY FOR PARTICIPATION. END OF NOTE.

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PAGE 02 LONDON 09080 01 OF 02 131730Z

2. SINCE MID MAY EXPLORATORY DISCUSSIONS ON PARTICIPATION HAVE BEEN RESUMED WITH SENIOR CIVIL SERVANTS OF DEPARTMENT OF ENERGY, TOGETHER WITH TREASURY AND INLAND REVENUE OFFICIALS, TALKING TO REPRESENTATIVES OF SELECTED COMPANIES. SEVERAL COMPANIES ACTUALLY REQUESTED INVOLVEMENT IN THIS ROUND OF TALKS, PRESUMABLY EITHER TO LEARN MORE ABOUT HMG PARTICIPATION PLANS IN GENERAL OR FOR PURPOSES OF EXPLORING WHAT GOVERNMENT TERMS FOR A FINANCIAL BAILOUT OPERATION MIGHT BE. IT IS CLEARLY ESTABLISHED THAT CONVERSATIONS ARE MERELY TO DISCUSS SUBJECT MATTER OF PARTICIPATION WITHOUT ANY COMMITMENT TO PRINCIPLE OF PARTICIPATION SOUGHT BY HMG OR GIVEN BY COMPANIES. BURMAH IS OF COURSE SPECIAL CASE SINCE, AS A CONSEQUENCE OF ITS FINANCIAL DIFFICULTIES, IT GAVE AGREEMENT IN PRINCIPLE AS QUID PRO QUO FOR HMG BANK LOAN GUARANTEES. SIMILARLY, A FEW SMALLER COMPANIES SUCH AS UNITED CANSO, TRICENTRAL AND, MORE RECENTLY, DEMINEX, HAVE GIVEN AGREEMENT IN PRINCIPLE IN ORDER TO FACILITATE HMG APPROVAL OF TRANSFER OF RIGHTS IN EXISTING LICENSES.

3. INITIAL HMG PAPER PRESENTED TO OIL COMPANIES PUT FORWARD, AS REPORTED IN MAY 23 FINANCIAL TIMES, "NO FINANCIAL GAIN OR LOSS" THESIS EXPLAINED TO US ON VARIOUS OCCASIONS BY HAROLD LEVER. FT ARTICLE IS SUBSTANTIALLY CORRECT BUT ONE INDUSTRY SOURCE COMMENTED THAT HMG'S ILLUSTRATION OF WHAT MIGHT BE ITS "BANKER'S TURN" (INTEREST RECEIVED ON VALUE OF HMG FINANCIAL INPUT EQUAL TO INTEREST A COMPANY WOULD OTHERWISE HAVE HAD TO PAY) WAS "RATHER EXTRAVAGANT" AND WOULD CERTAINLY HAVE TO BE BARGAINED DOWN IF COMPANY WANTED TO GO THIS ROUTE. SOURCE SAID OFFICIALS STATED UNEQUIVOCALLY THAT HMG INTENDED TO PUT UP ITS SHARE OF ALL DEVELOPMENT EXPENDITURES REQUIRED. THERE WAS NONETHELESS A HINT IN CONVERSATION THAT SUGGESTION OF COMPANY PUTTING UP 100 PERCENT OF REQUIRED EXPENDITURES (WITHOUT ANY "BANKER'S TURN") MIGHT BE WELCOMED.

4. DEPARTMENT OF ENERGY OFFICIALS EXPECT PRESENT PHASE OF EXPLORATORY DISCUSSION TO CONTINUE UNTIL THE END OF JULY BY WHICH TIME THEY HOPE TO HAVE GAINED CONFIDENCE OF MOST COMPANIES INVOLVED, CONVINCING THEM THAT HMG
CONFIDENTIAL

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PAGE 03 LONDON 09080 01 OF 02 131730Z

APPROACH TO PARTICIPATION IS FAIR, GENUINE AND NOT INTENDED AFFECT VIABILITY OF NORTH SEA DEVELOPMENT. SPECIFICALLY, THIS MEANS CONVEYING TWO IDEAS: HMG IS SERIOUS ABOUT "NO FINANCIAL LOSS" CRITERION AND HMG IS WILLING TO CONSIDER ALTERNATIVE FORMULAE.

5. ENERGY OFFICIALS HOPE TO BEGIN REPORTING TO MINISTERIAL LEVEL ON PRESENT STAGE OF TALKS WITHIN NEXT FEW WEEKS

(IN PRACTICE, THIS MEANS INITIALLY REPORTING TO LORD
BALOGH AND SECSTATE BENN AND THEREAFTER TO LEVER, HEALEY,
DELL AND PERHAPS OTHER CABINET MINISTERS ON AN AD HOC
BASIS.) AT THAT POINT, OFFICIAL LEVEL MAY TRY TO GO BE-
YOND GENERALIZATIONS AND OBTAIN MORE SPECIFIC DISCUSSION
BRIEF ON DETAILS OF OIL "BUY-BACK" ASPECT OF PARTICIPA-
TION ARRANGEMENTS. IT IS POSSIBLE NEGOTIATION STAGE MIGH
THEN BEGIN ON HIGHLY SELECTIVE BASIS DEPENDING ON COMPANY

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PAGE 01 LONDON 09080 02 OF 02 131728Z

53

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 09080

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6. ENERGY OFFICIALS DO NOT FORESEE NEGOTIATION OF ANY
STANDARD PARTICIPATION ARRANGEMENT. COMPANIES THEMSELVES
ARE BEGINNING TO PUT FORWARD A RANGE OF INFORMAL PRO-
POSALS AND, IN ANY EVENT, INDIVIDUAL AGREEMENTS ARE
LIKELY TO GROW OUT OF THEIR DIFFERING COMMERCIAL AND
CORPORATE CIRCUMSTANCES.

7. IN RESPONSE TO OUR COMMENT THAT NORTH SEA PROJECT FINANCING REMAINED EXTREMELY TIGHT IN MANY INSTANCES BECAUSE OF CONTINUING LENDING INSTITUTION AS WELL AS OIL INDUSTRY UNCERTAINTY OVER PARTICIPATION AS WELL AS PETROLEUM BILL, ENERGY OFFICIALS OBSERVED THAT THEY OUGHT TO HAVE CONVERSATIONS WITH BANKS SOMETIME IN JULY. IN THIS CONNECTION, THEY WILL CONSIDER HOW TO APPROACH US BANKS WHICH HAVE NORTH SEA INTERESTS.

8. QUERIED ABOUT HMG INTENTIONS WITH RESPECT TO PARLIAMENTARY CONFIDENTIALITY

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PAGE 02 LONDON 09080 02 OF 02 131728Z

MENTARY CONSIDERATION OF PARTICIPATION AGREEMENTS, ONE HIGH RANKING ENERGY OFFICIAL ACKNOWLEDGED HMG IS OBLIGED TO REPORT TO PARLIAMENT ON AGREEMENTS EVENTUALLY NEGOTIATED. HE STATED THAT FINANCIAL AS OPPOSED TO FULL COMMERCIAL ASPECTS MUST BE DISCLOSED IN SAME WAY TO PARLIAMENT. IT IS POSSIBLE THIS COULD BE ACCOMPLISHED THROUGH INCLUSION OF PARTICIPATION FINANCES ON AN AGGREGATED BASIS WITHIN TOTALITY OF BRITISH NATIONAL OIL COMPANY'S (BNOC) FINANCIAL REPORTING. HIS PERSONAL OPINION IS THAT ONLY GENERAL ACCOUNT OF PARTICIPATION AGREEMENTS SHOULD BE GIVEN TO PARLIAMENT SO THAT COMMERCIAL CONFIDENTIALITY OF DIFFERENCES IN BUY-BACK ARRANGEMENTS ETC. WOULD BE PROTECTED. REAL DIFFICULTIES WOULD BE EXPERIENCED BY BOTH PRIVATE COMPANIES AND BNOC IF PARLIAMENT COULD REOPEN COMMERCIAL ASPECTS. OFFICIAL CONCEDED THAT PARLIAMENTARY PUBLIC ACCOUNTS COMMITTEE OR SELECT COMMITTEE COULD NOT BE DENIED THIS INFORMATION IF IT WERE DEMANDED, BUT HE OBSERVED NORMAL PARLIAMENTARY PRACTICE WAS TO ABIDE BY AN HMG REQUEST TO RESPECT CONFIDENTIALITY. IN EXCEPTIONAL CASE, HOWEVER, HE AGREED PARLIAMENT MIGHT KICK OVER TRACES ON CONFIDENTIALITY.

9. ENERGY OFFICIAL PERSONALLY BELIEVED NO USEFUL PURPOSE WOULD BE SERVED BY GOING BEYOND GENERAL REPORT TO PARLIAMENT. EVEN IF A SUCCESSFUL ATTEMPT WERE MADE TO OBTAIN A PARLIAMENTARY PLEDGE OR BLESSING OF PARTICIPATION AGREEMENTS, THIS WOULD NOT IN FACT PROVIDE AN EXTRA MEASURE OF LONG TERM GUARANTEED LIFE FOR AGREEMENTS. ON THE CONTRARY, HE ARGUED THIS WOULD TEND OPEN UP AREA TO CONTINUING PARLIAMENTARY SCRUTINY WHEREAS HE FAVORED "RESERVED DOMAIN" APPROACH WHEREBY GOVERNMENT DEPARTMENTS LIMITED PARLIAMENTARY INVOLVEMENT. HE VOLUNTEERED HOWEVER THAT BENN HAS HISTORICALLY BEEN IN FAVOR OF GREATER PUBLIC DISCLOSURE AND THIS MIGHT INFLUENCE DEPARTMENT OF ENERGY POSITION.

RICHARDSON

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